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AUDIT OF
THE NUTRITIONAL PROGRAM MANAGED BY
THE SALVADORAN EVANGELICAL COMMITTEE
FOR HELP AND DEVELOPMENT (CESAD)
USAID/EL SALVADOR PROJECT NO. 519-0281

Audit Report No. 1-519-89-21-N
January 19, 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. MAILING ADDRESS
RIG/T
APO MIAMI 34022

OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA, HONDURAS

TELEPHONES
32-9987
also 32-3120 EXT. 2701-2703

January 19, 1989

MEMORANDUM

TO: D/USAID/El Salvador, Henry H. Bassford

FROM: RIG/A/T, Coinage N. Gothard, Jr.

SUBJECT: Audit Report No. 1-519-89-21-N, "Audit of the Nutritional Program Managed by the Salvadoran Evangelical Committee for Help and Development (CESAD) in El Salvador"

This report presents the results of a non-Federal financial and compliance audit requested by your Mission of the Nutritional Program, USAID/El Salvador Project No. 519-0281, managed by the Salvadoran Evangelical Committee for Help and Development (CESAD). The certified public accounting firm of Price Waterhouse prepared the report, which is dated January 4, 1989.

The purpose of this audit was to report on (1) the fairness of the fund accountability statement of the project for the period January 1, 1987 to June 30, 1988; (2) the system of internal control, including the procurement system; and (3) compliance by CESAD with applicable laws, regulations, and agreement terms.

Price Waterhouse disclaimed an opinion on the fund accountability statement due to scope limitations caused by inadequate supporting documentation primarily related to procurement, transportation services, and vehicle rentals; inadequate inventory records and controls; and indications of conflicts of interest and irregular accounting procedures. Price Waterhouse's study and evaluation of CESAD's internal accounting control and procurement practices revealed conditions which they believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement may occur and not be detected within a timely period. The weaknesses observed were (1) an inadequate accounting system; (2) inadequate control over the flow of documents; (3) inadequate segregation of functions in the procurement of goods and services; and (4) a lack of appropriate procurement procedures. Price Waterhouse disclaimed an opinion on those items tested for compliance as well as on untested items due to the scope limitations mentioned previously. However, they determined that there was non-compliance with certain

agreement terms and applicable laws and regulations requiring (1) maintenance of documentation to support project costs, (2) approval by USAID/El Salvador for purchases exceeding $4,000, (3) solicitation of competitive bid quotations, and (4) withholding of Salvadoran taxes from employees' salaries. Also, CESAD made local purchases from employees and former employees and contracted relatives of CESAD officials and employees for transportation services and vehicle rentals, which was contrary to the regulation prohibiting the acquisition of goods and services from employees or members of their families. Price Waterhouse identified $2,182,298 in questionable costs related to non-compliance with agreement terms and inadequate supporting documentation. They also found indications of irregular accounting procedures which are detailed in a separate report.

We believe that the findings and recommendations on internal controls and compliance, as well as the questionable costs included in the Price Waterhouse report are very significant. As a result, the following recommendation will be included in the Office of the Inspector General's audit recommendation follow-up system:

Recommendation No. 1

We recommend that USAID/El Salvador:

a. suspend any further funding to the Salvadoran Evangelical Committee for Help and Development (CESAD) for the Nutritional Program, USAID/El Salvador Project No. 519-0281, and discontinue signing any future agreements with the organization unless CESAD can demonstrate the adequacy of its accounting, financial management, procurement, and internal control systems to provide proper accountability for A.I.D. funds and compliance with laws, regulations, and agreement terms; and

b. negotiate a settlement with CESAD concerning the disposition of the $2,182,298 in costs questioned by the Price Waterhouse report dated January 4, 1989.

Please advise this office within 30 days of actions planned or taken to implement this recommendation.

FINANCIAL AND COMPLIANCE AUDIT OF THE COSTS REIMBURSED TO THE SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT (COMITE EVANGELICO SALVADOREÑO DE AYUDA Y DESARROLLO - CESAD)

USAID/EL SALVADOR PROJECT No. 519-0281

* * *

JANUARY 4, 1989

AUDIT OF THE NUTRITIONAL PROGRAM MANAGED BY THE SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT No. 519-0281

AUDITOR'S REPORT

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Apartado Postal 695
El Salvador, C. A.

Teléfono 21-7934
Telex 20049

Price Waterhouse

January 4, 1989

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Gothard:

This report presents the results of our financial and compliance audit of the Nutritional Program, managed by the Salvadoran Evangelical Committee for Help and Development (Comité Evangélico Salvadoreño de Ayuda y Desarrollo - CESAD), USAID/El Salvador Project No. 519-0281. The report covers the costs reimbursed to CESAD during the period from January 1, 1987 through June 30, 1988.

BACKGROUND

On January 23, 1985, the U. S. Government, through the Agency for International Development in El Salvador (USAID/El Salvador) signed a cooperative agreement with the Salvadoran Evangelical Committee for Help and Development (CESAD), for providing food and nutritional services as well as taking care of gravely undernourished children. For such purposes, USAID/El Salvador agreed to provide funds as follows:

		Budgeted amounts
1.	Personnel	US$1,011,000
2.	Equipment and service	310,000
3.	Maintenance	410,043
4.	Rent	1,056,000
5.	Purchases	3,371,000
6.	Training	180,000
7.	Contingencies	57,957
	Sub-Total	6,396,000
8.	Handling commission	590,000
		US$6,986,000

The agreement was signed on January 23, 1985 to cover the project operations up to September 10, 1987; however, the project ending date was extended to December 31, 1988. On May 20, 1988, USAID/El Salvador notified the Executive Director of CESAD that funding to the project would end by June 30, 1988.

The main purpose of the project was to supply food and nutritional services to displaced families whose special needs had been unattended by governmental and non-governmental organizations. The three general objectives for attaining this purpose were to:

1. Furnish nutritional assistance to displaced and relocated persons, especially those whose living conditions jeopardized their health.

   The agreement envisaged a regular distribution of a food basket to supply a minimum daily intake of 1,600 calories to each person within the scattered displaced population, neither registered nor relocated.

2. Provide for the special needs of vulnerable members of displaced families.

   To attain this objective, educational and nutritional assistance centers would be established in places within reach of the displaced population, registered or not.

3. Coordinate with governmental and private institutions to improve the nourishment of displaced and relocated persons.

   According to the agreement, CESAD would cooperate with other private and voluntary organizations and governmental institutions in providing health and nourishment assistance to displaced persons.

The project's basic activities were:

1. distribution of food baskets among the displaced population;

2. provision of daily small meals in conjunction with educational activities for the undernourished members of families located in slum colonies;

3. implementation of an intensive feeding and reference program for children and gravely undernourished adults; and

4. implementation of a supervision and nutritional survey system.

Except for beans, sugar, salt and coffee, food to be distributed would be obtained from the Public Law 480, Title II (PL 480) Program. Local purchases of food by CESAD were to follow the requirements established by the agreement. Food was to be delivered at distribution centers within reach of the communities. CESAD was required to maintain sufficient food stocks, for which rental of warehousing facilities was authorized in San Miguel and San Salvador, so that food would be readily available for distribution. The warehouses were to have warehousemen and watchmen for the protection and care of the stored food items. Physical control was to be implemented by adoption of the inventory controls approved by USAID/El Salvador.

As part of the food distribution logistics, educational and nutritional assistance centers (CENA) were created where attention to the most vulnerable groups of the displaced population was to be concentrated, including infants, pre-school children, expectant and nursing mothers, teenage girls, persons recovering from serious illnesses, persons with malnutrition symptoms and people engaged in heavy labor.

The agreement also included an intensive nourishment program to take care of gravely undernourished adults and children, who weighed less than 60% of their normal weights.

The Executive Director of CESAD is the official representative of CESAD for legal and policy matters related to the agreement. The agreement provided CESAD with full responsibility for the internal management of all aspects, including:

1. Personnel contracting, except for professional staff which required prior USAID/El Salvador approval.

2. Design, organization, implementation and evaluation of all program activities.

3 Design of administrative and accounting procedures for controlling the operations to be undertaken under the agreement.

4. Management of funds generated under the agreement.

All project activities, including those detailed above, were under the active supervision of USAID/El Salvador and its technical assistance, when required.

The main CESAD officials participating in project implementation were the following:

Manuel de Jesus Quinonez	Executive Director
Jaime A. Chacon	Program Director
Carlos Bautista Flamenco	General Manager
Mario Hugo Benitez	Finance Manager

Bruno Alfredo Parada	Administrative Manager
Rosa Emilia de Seballos	Chief of the Technical Department
Francisco Flores	Personnel
José Carlos Arias	Chief, San Miguel Region

AUDIT OBJECTIVES AND SCOPE

We were engaged to conduct a financial and compliance audit of the costs charged to the Nutritional Program, USAID/El Salvador Project No. 519-0281, for the period from January 1, 1987 through June 30, 1988. Our audit work included the review of the accounting records, original source documentation supporting expenditures, the internal accounting control and procurement systems and the procedures applied by CESAD for controlling transactions originating from the project.

Our examination was performed in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision), and included such tests as deemed necessary to determine whether:

1. The fund accountability statement for the project presents fairly the receipts and disbursements fo. the period from January 1, 1987 through June 30, 1988.

2. CESAD's procurement practices and internal accounting controls were adequate for project purposes.

3. CESAD complied with agreement terms, applicable laws and regulations and implementation letters.

We were also alert to situations or transactions that could be indicative of fraud, abuse and illegal expenditures and acts.

The scope of our work included the following:

1. review of documentation supporting costs charged to the project for salaries and fringe benefits, vehicle rentals, transportation services, purchase of commodities and agricultural inputs, as well as other direct costs;

2. study and evaluation of the internal accounting control system and accounting practices followed by CESAD for controlling project activities;

3. evaluation of the procurement procedures and practices used by CESAD for the acquisition of goods and services related to the project;

4. review of project related transactions to assure that CESAD was in compliance with agreement terms and applicable laws and regulations; and

5. review of CESAD's handling charges to assure that the amounts charged were in accordance with the agreement.

RESULTS OF AUDIT

Fund Accountability Statement

We were appointed as auditors on May 16, 1988, four days before USAID/El Salvador notified CESAD of the discontinuance and finalization of project activities, thus preventing us from applying the following audit procedures:

1. Physical inspection of food and agricultural inputs delivered to the communities.

2. Obtaining assurance that the signatures evidencing receipt of the delivery orders matched those of the community representatives, as it was not possible to obtain from program officials a listing of such signatures for their comparison with those appearing on the delivery orders.

3. Review of the procedures used for the acquisition of goods and services, vehicle rentals, freight, and personnel hiring. The fact that the key staff involved in such procedures were no longer under the employment of CESAD and that no activities of such nature took place after our appointment prevented an evaluation of the controls surrounding such transactions.

Further to the above mentioned limitations, our audit tests disclosed that:

1. CESAD did not have a conflict-of-interest policy guaranteeing that business transactions were conducted on a competitive, open and reasonable basis.

2. Vehicle rentals used by program officials and employees were not supported by prior requests and USAID/El Salvador approvals.

3. Purchases in excess of ¢20,000 were made without the required USAID/El Salvador approval

4. No subsidiary records for inventory control existed for reviewing the related unit and value movements.

5. CESAD did not prepare a fund accountability statement reflecting both receipts from USAID/El Salvador and disbursements made during the period from January 1, 1987 to June 30, 1988, as well as receivables from or payables to USAID/El Salvador, if any.

Because of the limitations and significance of the matters mentioned in the preceding paragraphs, we were unable to apply adequate auditing procedures to satisfy ourselves as to the reasonableness and applicability of the costs charged to the project. Consequently, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement for the Nutritional Program for the period from January 1, 1987 to June 30, 1988. Nevertheless, our work identified certain costs aggregating ₡10,246,038 and ₡665,453, as described in Notes 4 and 5 to the fund accountability statement, which in our opinion could be considered questionable.

Internal Accounting Control and Procurement System

Due to inadequate internal accounting control and procurement systems, we could not rely on those systems to determine the nature, timing and extent of the audit tests and procedures considered necessary for expressing an opinion on the fund accountability statement. Our study and evaluation identified certain conditions that we believe result in more than a relatively low risk that errors or irregularities that would be material in relation to the fund accountability statement may occur and not be detected within a timely period. A summary of the relevant weaknesses detected is presented below:

- an inadequate accounting system;
- lack of proper control over documents supporting project activities;
- inadequate segregation of functions in the procurement of goods and services;
- lack of specific controls and policies for preventing possible conflicts of interest and transactions with employees and relatives of officials and employees;
- inadequate controls over inventories of commodities distributed to the communities; and
- inadequate controls to assure optimum and economical use of vehicles rented and freight services contracted for transportation of food and supplies.

Compliance with Agreement Terms and Applicable Laws and Regulations

The limitations imposed on the scope of our work prevented us from determining whether all transactions selected for testing and items not tested were in compliance with agreement terms and applicable laws and regulations. However, our audit tests determined that for certain components CESAD was not in compliance with agreement terms and applicable laws and regulations, as described in the following page:

- non-compliance with the general requirements for non-governmental, non-U.S. grantees, regarding the acquisition of goods and services, (section 17 of the general requirements);

- non-compliance with the procurement procedures required by USAID/El Salvador in the agreement and implementation letters;

- untimely payment of taxes withheld from employees' salaries for social security and social housing fund contributions, as well as income taxes;

- lack of approval of monthly per diem allowances paid to project officials and certain CESAD officers;

- in addition, it was not possible to examine documentation supporting certain items pertaining to the liquidation of inventories shown on the project's fund accountability statement as of June 30, 1988.

- USAID/El Salvador's physical inventory shows a fixed asset shortfall of $54,466 for certain items of fixed assets.

As described elsewhere in this report, we also found certain situations which could be indicative of irregular accounting procedures and which are discussed in a separate report issued to the attention of the Regional Inspector General for Audit (RIG/A/T).

MANAGEMENT COMMENTS AND AUDITOR RESPONSE:

Background. On June 30, 1988 the program was terminated by USAID/El Salvador, as mentioned elsewhere in this report, and this was the last day for the audit field work in CESAD's office. On July 15, 1988 a draft of the audit representation letter, including the major findings, was delivered to CESAD officials for their acceptance and execution. On August 18, 1988 the CESAD representation letter was received by Price Waterhouse, with the exceptions and comments described below, duly executed by Mr. Manuel de J. Quinonez and Doctor Carlos Antonio Bautista, Executive Director and General Manager of the project, respectively.

CESAD's Executive Director comments to the representation letter and major findings

1. **Price Waterhouse finding:** Listing of the authorized signatures of community representatives receiving deliveries of foodstuffs could not be obtained.

CESAD comment: The program required authorized signatures for community representatives who could sign checks on bank accounts. The listing mentioned by the auditors was not asked for by USAID/El Salvador representatives. The USAID/El Salvador Rural Development Office was provided a listing of the Board of Director's community representatives who also signed for receipt foodstuffs and other inputs.

Price Waterhouse response: The listing furnished to the auditors did not show the signatures of the authorized representatives for receipts of foodstuffs and other inputs. The listing received was for signing checks only.

2. **Price Waterhouse finding:** Contracts supporting rentals and transportation did not support the reasonableness of the transactions.

   CESAD comment: Due to the urgency of the project, the situation in the country and the Socio-political conditions, bids were not obtained. The project's management focused on urgency, good service, responsibility, efficiency and capability of organizations to offer service without the intention to favor specific families or institutions. Other transportation institutions were consulted for the possibility of providing such comprehensive services; however, they were willing to provide transportation only to places where no risk or danger existed, i. e. San Salvador and the western region and not in the mid and eastern regions of the country.

   The underlying warehouse records-kardex, accounting records and deliveries to communities support the proper use of in kind contributions. The important fact is that services were provided. To CESAD's knowledge nothing was lost in route from the Acajutla port to the warehouses and from there to the communities. The PL-480 program contracted monitors who consistently performed physical inspections and received claims from the insurance companies.

   Price Waterhouse response: Our finding is based on the fact that sufficient supporting documentation and contracts were not made available to determine if appropriate procurement procedures were followed.

3. **Price Waterhouse finding:** Procedures justifying the usage of rental vehicles were not used.

   CESAD comment: CESAD's management prepared a schedule to control and program the use of vehicles by technical staff, supervisors and promoters for the various tasks demanded by the program.

Price Waterhouse response: This information was not made available to the auditors.

4. **Price Waterhouse finding:** There was a lack of an appropriate inventory subsidiary records-kardex.

   CESAD's comment: CESAD acknowledges that the inventory subsidiary records-kardex were not properly kept; all related information was not posted. However, the warehouses worked only with quantities and the accounting department worked with amounts (total quantities-value).

   Price Waterhouse response: The procedures followed did not provide for proper tracing of warehouse issues and reconciliations with official accounting records.

5. **Price Waterhouse finding.** Price and cost analysis was not made on bids to decide on the best offers.

   CESAD comment: The procurement committee composed of the Executive Director, Program Director, General Manager and the Finance and Chief Accountant received, in most cases, three bids as required by the agreement and project implementation letter No. 6. These bids were always available to the procurement committee to decide on the best offer based on quality, availability, prices and prompt delivery.

   Price Waterhouse response: The above representation is impossible to validate since the referenced documentation was not made available to the auditors for their review.

6. **Price Waterhouse finding:** The inventory balances of goods returned to USAID/El Salvador were not confirmed.

   CESAD comment: Copies of inventories returned to USAID/El Salvador were furnished to the auditors afterwards.

   Price Waterhouse response: The information was made available and reviewed subsequent to the field work completion; however, not all documentation related with agricultural product inventories were furnished for review.

7. **Price Waterhouse finding:** Transportation services amounting to ₡2,474,805 were procured under conditions indicating possible conflicts of interest.

CESAD comment: Management acknowledges that personnel contracting and procurement of transportation services and vehicle rentals amounting to ¢2,474,805, in certain aspects, circumvented the general policy but, without conflicts of interest. In general, management believes that procurement as well as personnel contracting was fully approved by project implementation letters and other correspondence.

Price Waterhouse response: Specific authorizations requested by the auditors were not made available.

8. Price Waterhouse finding: Foodstuffs and other procurements amounting to ¢6,620,734 were acquired without required prior approval by USAID/El Salvador for transactions in excess of ¢20,000.

   CESAD comment: Management pointed out that all foodstuff procurements were approved in letters of April 13, 1987 executed by Mr. F. Enos USAID/El Salvador Human Resources and Humanitarian Assistance Director and May 7, 1987 executed by Mr. Raymond G. Lynch Project Manager.

   Price Waterhouse response: The above mentioned letters do not show specific approval for each of the procurement transactions in excess of ¢20,000 as it is called for by the agreement.

<u>Draft report delivery and exit conference</u>:

1. On October 5, 1988 an English version of the draft audit report, reviewed by RIG/A/T representatives, was delivered to CESAD's Executive Director, Mr. Manuel de J. Quinonez.

2. On October 10, 1988 the translated Spanish version of the draft audit report was delivered to CESAD Executive Director, Mr. Manuel de J. Quiñonez.

3. On October 16, 1988 Mr Manuel de J. Quiñónez passed away, without having an opportunity to attend the exit conference to discuss the draft audit report as was scheduled for the following week.

4. On November 5, 1988 Mr. Jose Leon Lemus assumed the position as CESAD's Executive Director.

5. On November 15, 1988 an exit conference was held with representatives of CESAD's Board of Directors, USAID/El Salvador, RIG/A/I and Price Waterhouse to discuss the draft report. CESAD's representatives stated that they were not in a position to discuss the report since they were not acquainted with CESAD's past operations. The CESAD representatives requested the payment of additional funds of approximately ¢500,000 for unpaid balances to creditors related with the project.

RIG/A/T representatives indicated that a written response to the draft audit report was required by November 25, 1988, if CESAD wanted to submit written comments (CESAD had already had more than 30 days). On November 22, 1988 CESAD sent a letter addressed to the Office of the Regional Inspector General at Tegucigalpa, indicating that since the CESAD official that executed the agreement with A.I.D. had passed away it was not possible to clarify and comment on the draft audit report, and that the present Executive Director Mr. José León Lemus did not know the reasons and justification of questionable costs reported by the auditors. However, CESAD acknowledged that some mistakes and irregularities may have occurred on the part of the officials managing the project.

The present CESAD representatives believe that the institution has certain responsibilities, but the officials that managed the project funds should be investigated. Also, they believe that the persons that provided transportation services should be investigated.

The entire text of CESAD's responses are included in Appendices I and II.

USAID/EL SALVADOR MISSION COMMENTS

The entire text of USAID/El Salvador mission comments is included in Appendix III.

Price Waterhouse has considered USAID/El Salvador comments and adjusted applicable figures in the final report.

* * *

Price Waterhouse

Price Waterhouse

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT No. 519-0281

FUND ACCOUNTABILITY STATEMENT

January 1, 1987 through June 30, 1988

AUDITOR'S OPINION

We have performed a financial and compliance audit of the fund accountability statement of the Nutritional Program managed by the Salvadoran Evangelical Committee for Help and Development (CESAD) USAID/El Salvador Project No. 519-0281, for the period January 1, 1987 to June 30, 1988. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

1. We were appointed as auditors on May 16, 1988, four days before USAID/El Salvador notified CESAD of the discontinuance of project activities. Due to this situation and because the main project activities had already been undertaken, it was not possible to physically inspect and oversee the distribution of products to the communities, nor were we able to secure a listing of the authorized signatures of community representatives for us to compare them with those appearing in the product shipping orders and ascertain their delivery to the intended beneficiaries.

2. The internal control system did not provide for an adequate segregation of functions. Also, certain deficiencies in the inventory control records prevented us from performing an adequate analysis of unit and value movements.

3. Supporting documentation, in general, was found to be inadequate to the point that no adequate audit procedures could be applied to determine whether the acquisition of goods and services had been made on a competitive and open basis, for securing the most advantageous conditions for the project.

4. No contracts were signed supporting rental terms and rates for vehicles used in the supervision of project operations.

5. Our audit tests disclosed certain situations or transactions at variance with Section 17 (a) of the General Requirements for Non-governmental, Non-U.S. grantees, for the acquisition of goods and services, which governs conflicts of interest policies that could significantly affect the propriety and reasonableness of the transactions reflected in the fund accountability statement.

6. As mentioned in Note 5 to the fund accountability statement, the liquidation of inventories on hand at the project's conclusion, in the amount of ₡665,453 and fixed assets of ₡54,466 was not satisfactorily supported or documented.

7. Appropriate explanations on the final disposition as of June 30, 1988 of accounts receivable, inventories and transitory accounts for an aggregate of ₡117,985 could not be obtained. Also, we were not able to obtain confirmation of the major balances payable at that date.

Because we were unable to apply adequate auditing procedures regarding the costs charged to the Nutritional Program managed by the Salvadoran Evangelical Committee for Help and Development (CESAD), as noted in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying fund accountability statement for the period from January 1, 1987 to June 30, 1988. Nevertheless, we identified certain costs described in more detail in Notes 4 and 5, that in our opinion are considered questionable.

Price Waterhouse

September 28, 1988

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT No. 519-0281

FUND ACCOUNTABILITY STATEMENT

January 1, 1987 to June 30, 1988

(expressed in Salvadoran colones- Note 2)

	Budget balance (Note 6)	Amount	Question-able costs	Explanation of question-able costs (Note 4)
Cash on hand as of January 1, 1987		₡ 353,265		
Receipts for the period January 1, 1987 to June 30, 1988		15,853,160		
Insurance proceeds		158,064		
Total cash available		16,364,489		
Expenditures charged to the project (Note 7):				
Personnel costs	₡ 2,680,720	3,912,087	₡ 27,150	a and f
Equipment and services	681,085	495,730	73,406	b, and l
Maintenance	724,960	833,340	32,908	g, h, k, m and n
Rent	2,555,860	2,935,889	2,474,855	c, d and i
Local purchases	10,532,585	6,749,450	6,620,734	e
Training	728,305	227,952	92,200	j
Contingencies	264,315		-	
Handling charges (Note 3)	1,650,000	1,465,872	924,785	o
Total expenditures	₡19,817,830	16,620,320	₡10,246,038	
Excess expenditures over receipts		255,831		
Less - Assets paid with project's funds:				
Accounts receivable		1,928		
Merchandise in transit		95,259		
Transitory accounts		20,798		
		117,985		
Balance in favor of CESAD		₡ 137,846		

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT No. 519-0281

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

January 1, 1987 through June 30, 1988

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES:

The significant accounting policies and practices adopted by CESAD for the Nutritional Program do not necessarily reflect the application of accounting principles generally accepted in the United States of America. A summary of such principles follows:

Basis of accounting -

The accrual basis of accounting is followed for recording expenses, but receipts are generally recorded as collected.

Inventories -

Inventories consist mainly of agricultural inputs and supplies for distribution to communities. Purchases of inventory are recorded as project costs and reported to USAID/El Salvador for reimbursement at the time of purchase.

Fixed assets -

Fixed asset acquisitions are charged at cost directly to the project and no depreciation is taken.

NOTE 2 - EXCHANGE RATE AND REGULATIONS:

The books of record of CESAD are kept in Salvadoran colones, denoted by the symbol ₡ in the accompanying statement. On January 22, 1986 the rate of exchange of the Salvadoran currency was established at ₡5.00 to US$1.00.

NOTE 3 - HANDLING CHARGES:

According to the agreement, CESAD is authorized to charge a fee of 10% of total direct costs disbursed, excluding equipment, services and contingencies, as compensation for managing the project.

NOTE 4 - QUESTIONABLE COSTS:

A summary of certain questionable costs charged to the project is presented in the following page:

Reference	Component	Explanation	Amount
Non-compliance with agreement terms			
a.	Personnel	CESAD paid an uniform, flat per diem allowance to program officials. This did not comply with the A.I.D.'s policy of requiring submission of a report for actual expenses incurred. No original source documentation in support of these expenses was found, and they were not approved by USAID/El Salvador.	₡ 19,950
b.	Equipment and services	No evidence of approval by USAID/El Salvador could be found for the purchase of three air conditioning units.	18,940
c.	Rentals	Freight services used by CESAD were almost exclusively provided by Transportes de Carga La Flecha and Transportes Centroamericanos without prior USAID/El Salvador approval. No evidence was found that open competition had been used to acquire such services. This was not in compliance with section 17 (a) of the General Requirements for Non-governmental, Non-U.S. grantees.	1,889,405
d.		Vehicle rental services used by CESAD were provided by individuals without formal contracts. These expenses were mostly paid in advance before any services were provided and without the approval of USAID/El Salvador. This was not in compliance with Section 17 (a) of the General Requirements for Non-governmental, Non - U.S. grantees.	284,400
		Carried-forward . . .	₡2,212,695

Reference	Component	Explanation	Amount
		Brought-forward . . .	₡2,212,695
e.	Local food purchases	Local food purchases exceeding ₡20,000 for each transaction were made during the period from April through September 1987, without prior USAID/El Salvador approval, as was required by Section B.1 of implementation letter No. 6 dated May 7, 1987. These costs are questioned because of non-compliance with agreement terms and other irregular conditions noted regarding these purchases.	6,620,734
Unreasonable Costs			
f.	Personnel	Salary paid to Elizabeth Ramirez from November 16, 1987 through May 30, 1988, without proper evidence that the services were actually rendered. The last check was not claimed by this person.	7,200
g.	Maintenance	1. During the period from January 1, 1987 through May 31, 1988 repairs to leased vehicles were charged to the project. These costs were considered "ineligible" according to correspondence from USAID/El Salvador. Following are the payments in question:	

Car Plate	Payment
P- 73382	₡3,937
P- 94073	1,942
P- 71975	3,431
P- 73545	606
P- 16501	3,497
P- 53254	4,567
P-109519	3,447
P- 73110	250
	21,677

Carried-forward . . .	₡8,862,306

Reference	Component	Explanation	Amount
		Brought-forward . . .	₡8,862,306
h.		2. Disbursements for gasoline consumption for vehicles not used or assigned to the project:	
		Car plate — Consumption P-54714 — ₡1,485 P-73382 — 2,043 P-80401 — 166 No number — 471	4,165
i.	Rentals	1. Vehicle rental arrangement with Sure Rent-Car were made without properly evaluating lease vs. direct purchase. Also no quotations from other suppliers were obtained for selecting the most economical rates. The lack of appropriate documentation does not permit determining whether the related expenses were justified.	199,850
		2. Payments for transportation services for products were not supported with evidence that the reported contractor provided the services or that the services were actually received.	101,200
j.	Training	The lack of adequate documentation does not permit determining whether the project's employees attended the training mentioned. The descriptions of the courses given, location, length, names and number of participants and other related information was not made available. Some payments were made directly to CESAD employees.	92,200
		Carried-forward . . .	₡9,259,721

Reference	Component	Explanation	Amount
		Brought-forward . . .	₡9,259,721
Non allocable costs			
k.	Communication	Personal international telephone calls, mainly to Vermont and New Jersey, whose legitimate allocation to project costs was impossible to determine. Telephone bills paid with check No. 3657 dated May 21, 1987.	1,716
l.	Equipment and services	Fixed assets acquired during 1985, 1986 and 1987, were reported by CESAD as returned to USAID/El Salvador in June 1988 and charged to project funds. However, USAID/El Salvador physical inventory shows a shortfall.	54,466
m.	Other costs	1. Liquid wax, the use of which could not be determined, was purchased in October, 1987 with checks 4638, 4660 and 4778.	3,700
n.		2. Check No. 3627 dated May 18, 1987 for the purchase of cleaning materials was not cashed by its payee. Also no bid quotations were obtained for selecting the best offer.	1,650
			9,321,253
Questionable direct costs			
o.	Proportion of handling commission charges computed on the questionable costs (Note 3)		924,785
			₡10,246,038

NOTE 5 - ADJUSTMENT TO INVENTORIES AND FIXED ASSETS

On the basis of instructions for final project liquidation, CESAD was required to return to USAID/El Salvador the stocks of products not used or delivered to the communities, as well as the fixed assets acquired with project funds or donated by USAID/El Salvador under the Agreement.

On June 30, 1988, journal entries pertaining to the liquidation of inventories and fixed asset balances of ₡665,453 and ₡54,466 (Note 4, item-reference 1), respectively, were recorded in the accounting records. The entries were not supported with original source documentation as evidence that the inventories had been satisfactorily returned to and received by USAID/El Salvador. The amount of the remaining inventories was not adequately determined; rather, such amounts were taken directly from the inventory subsidiary records without having been adjusted based on physical inventory counts. A detail of the inventory items and value is shown below:

Source	Journal entry No. CD 111	CD 114	Total
Project funds	₡485,585	₡179,868	₡665,453

NOTE 6 - BUDGET:

A summary of the budget and the costs incurred as of December 31, 1986 is as follows:

	Budgeted amounts	Cost incurred as of December 31, 1986	Remaining budgeted amounts *	Salvadoran colones equivalents
Personnel	$1,011,000	$ 474,856	$ 536,144	₡ 2,680,720
Equipment and services	310,000	173,783	136,217	681,085
Maintenance	410,043	265,051	144,992	724,960
Rent	1,056,000	544,828	511,172	2,555,860
Purchases	3,371,000	1,264,483	2,106,517	10,532,585
Training	180,000	34,339	145,661	728,305
Contingencies	57,957	5,094	52,863	264,315
Sub-Total	6,396,000	2,762,434	3,633,566	18,167,830
Handling commission	590,000	260,000	330,000	1,650,000
Total	$6,986,000	$3,022,434	$3,963,566	₡19,817,830

* Exchange rate used to translate US dollar into Salvadoran colones was ₡5.00 = US$1.00.

NOTE 7 - DISBURSEMENT LIQUIDATIONS PENDING ACCEPTANCE BY USAID/EL SALVADOR

A reconciliation of liquidation requests presented to USAID/El Salvador and total project costs per the fund accountability statement follows:

	Liquidation requests presented to USAID/El Salvador	Liquidations pending acceptance by USAID/El Salvador	Total project costs per Fund Accountability Statement
Personnel costs	₡ 3,496,398	₡415,689	₡ 3,912,087
Equipment and services	463,533	32,197	495,730
Maintenance	749,491	83,849	833,340
Rent	2,668,939	266,950	2,935,889
Local purchases	6,748,859	591	6,749,450
Training	217,076	10,876	227,952
Handling charges	1,346,897	118,975	1,465,872
	₡15,691,193	₡929,127	₡16,620,320

Price Waterhouse

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT NO. 519-0281

REPORT ON INTERNAL ACCOUNTING CONTROL AND PROCUREMENT SYSTEMS

AUDITOR'S OPINION

We have performed a financial and compliance audit of the Nutritional Program managed by the Salvadoran Evangelical Committee for Help and Development (CESAD) for the period January 1, 1987 to June 30, 1988, and have issued our report dated September 28, 1988 on the related fund accountability statement in which we disclaimed our opinion due to limitations in the scope of our work. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U. S. Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision). Solely to assist us in planning and performing our examination, we classified and made a study and evaluation of the significant internal accounting controls in the following categories:

- Inventories
- Procurement policies and procedures for the acquisition of goods and services, including vehicle rentals
- Product shipping to communities
- Controls over the use of vehicles donated by USAID/El Salva-- Salvador, and
- Personnel costs

That study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because we concluded that the audit could be performed more efficiently through substantive audit tests and due to certain control weaknesses observed (see findings Nos. 1 through 4), our study and evaluation of the internal accounting controls and procurement practices did not extend beyond this preliminary review phase. Accordingly, we do not express an opinion on the system of internal accounting control and procurement practices taken as a whole. Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose all material weaknesses in the internal accounting control and procurement systems. However, our examination disclosed conditions identified in findings 1 through 4 in the following pages, that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the project fund accountability statement taken as a whole may occur and not be detected within a timely period.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our examination of the Nutritional Program's Fund Accountability Statement and this report does not affect our report dated September 28, 1988 on such statement.

This report is intended solely for the use of CESAD and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

September 28, 1988

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT NO. 519-0281

REPORT ON INTERNAL ACCOUNTING CONTROL AND PROCUREMENT SYSTEMS

FINDINGS

1. There was an inadequate accounting system

Condition:

The accounting records for the Nutritional Program did not adequately support certain major costs reflected in the fund accountability statement. Such unsupported costs were primarily related to procurement and inventory control, transportation and vehicle rentals. Also, the accounting records did not support the generation of financial accounting data for USAID/El Salvador. The system in place did not incorporate the controls necessary to generate reliable accounting data.

Criteria:

Establishing and maintaining an internal control system based on adequate accounting records is an important responsibility of management. Section II of the agreement requires CESAD to maintain a proper accounting information and internal control system to provide reasonable assurance that the transactions were executed in accordance with project management's authorization.

Cause:

CESAD did not implement a proper accounting system for control of the transactions generated by the Nutritional Program. Management did not provide close supervision to assure adherence to established policies and agreement procedures.

Effect:

Because of the generally poor condition of the financial records and the internal control system, as described in Note 4 to the project's fund accountability statement, CESAD was reimbursed ₡10,246,038 by USAID/El Salvador for direct project costs, which are considered questionable for the reasons described in Note 4. Furthermore, as explained in Note 5, project costs included ₡665,453 in inventories recorded as returned to USAID/El Salvador without evidence of proper disposition.

Recommendation:

USAID/El Salvador should require CESAD to implement adequate internal accounting control and management information systems to permit preparation of reliable, complete and accurate financial information.

2. <u>There was lack of proper control over documents supporting project activities</u>

Condition:

CESAD did not establish appropriate control over the flow of documentation as evidence that recorded transactions did in fact belong to the project. This condition created the following situations:

a. the available documentary evidence was, in most cases, insufficient to evaluate the reasonableness and propriety of certain costs charged to the project;

b. a system for controlling invoices and other documents as evidence of receipt of goods and services, prior to initiating payment procedures, was not implemented;

c. warehouse receipt forms did not consistently make reference to the supplier's invoice or shipping order numbers to adequately support payment of the related purchase;

d. the voucher checks for payment of local purchases and vehicle rentals did not include warehouse receipts or corresponding rental agreements;

e. receipts for gasoline were not consistently signed by the employees using it nor were the corresponding vehicles identified in all cases;

f. an inventory subsidiary record (kardex) with sufficient information to maintain adequate control over quantities and values of inventories was not in use; and

g. training costs were not supported with sufficient documentation concerning the nature, location, and names of participants.

Criteria:

Agreement terms require sufficient evidence to identify the applicability and reasonableness of costs reimbursed with project funds.

Cause:

Insufficient administrative staff and lack of timely supervision by the Executive Director did not provide for adequate controls and sufficient documentation of transactions.

Effect:

Costs charged to the project were considered questionable because of lack of sufficient evidence to establish their reasonableness and applicability to the project.

Recommendation:

USAID/El Salvador should require CESAD to improve its controls over the flow of documents to adequately support costs incurred.

3. <u>There was inadequate segregation of functions in the procurement of goods and services</u>

Condition:

Both the finance manager and the accountant approved purchases of goods and services and were also responsible for issuing and signing checks as well as keeping the accounting records.

Criteria:

Segregation of incompatible duties is fundamental to the reliability of an entity's control system. The underlying concept is that no one person should be in a position to control all phases of processing a transaction in a way that permits errors of omission or commission to go undetected. The flow of activities should be designed so that the work of one individual is either independent of, or serves as a check on, the work of another.

Cause:

CESAD did not establish a system with a proper segregation of functions for the procurement of goods and services.

Effect:

Costs incurred were considered questionable because adequate procurement practices did not exist for reasonable assurance that purchases were based on valid, approved requests and were properly made as to prices, quantities, qualities and vendor selection.

Recommendation:

USAID/El Salvador should require CESAD to reorganize its procurement department assigning incompatible functions to different individuals for reasonable assurance that acquisition of goods and services is properly approved, executed, recorded in accounting records, received and paid for.

4. <u>There was lack of certain procurement procedures deemed necessary for control purposes</u>.

Condition:

The procurement system for the acquisition of goods and services, lacked the following:

- requisition forms;

- purchase orders properly approved by the Program Manager or Director;

- evidence of having obtained competitive bids from qualified suppliers;

- a "paid" stamp or an equivalent means of identifying check numbers and dates of payment;

- evidence that goods and services were actually received; and

- a statement of business ethics prohibiting making purchases of goods and services from individuals or entities having family or similar ties with officers and employees of either CESAD or the project in order to prevent potential conflicts of interest.

Criteria:

An adequate procurement system is necessary to provide assurance that costs reported as incurred were effic' ntly and economically applied to activities envisaged by the agreement.

Effect:

Costs for goods and services incurred without following adequate procurement procedures could be considered questionable.

Recommendation:

USAID/El Salvador should require CESAD to improve its procurement system so that purchases of goods and services are made on an open and competitive basis, without indications of purchases from individuals or entities with family or similar relationships with officers and employees. Also, there should be documentation as evidence that goods or services are actually received.

Apartado Postal 695
El Salvador, C. A.

Teléfono 21-7934
Telex 20049

Price Waterhouse

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT NO. 519-0281

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

AUDITOR'S OPINION

We have performed a financial and compliance audit of the Nutritional Program managed by the Salvadoran Evangelical Committee for Help and Development (CESAD), for the period January 1, 1987 to June 30, 1988, and have issued our report dated June 30, 1988 on the fund accountability statement in which we disclaimed our opinion due to limitations in the scope of our work. As part of our examination we selected certain transactions and records to determine CESAD's compliance with agreement terms and applicable laws and regulations. Except for the limitations mentioned in the third paragraph below, our study and evaluation was made in accordance with generally accepted auditing standards and the United States Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision).

The management of CESAD is responsible for compliance with the terms of the agreement signed with USAID/El Salvador. This responsibility also covers compliance with the laws and regulations of El Salvador, as they may be applicable to the covenants of the agreement.

Due to inadequate accounting and internal control systems and lack of supporting documentation, primarily for procurement, inventory, transportation services, and vehicle rentals, it was not possible for us to determine whether the selected transactions were in compliance with agreement terms and applicable laws and regulations. Accordingly, we neither express positive assurance on compliance with respect to tested items nor negative assurance on untested items for the period January 1, 1987 to June 30, 1988. However, the results of our work determined that for certain of the items tested CESAD did not comply with agreement terms and applicable laws and regulations as described in findings Nos. 1 through 5. We also found certain situations which may be indicative of irregular accounting procedures and have issued a separate report to the attention of RIG/A/T concerning those matters.

This report is intended solely for the use of CESAD and the United States Agency for International Development. This restriction is not intended to limit distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Price Waterhouse

September 28, 1988

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT NO. 519-0281

REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS

FINDINGS

1. Documentation supporting certain costs was not available for review.

Condition:

CESAD failed to maintain sufficient documentation to support costs charged to the Nutritional Program and reimbursed by USAID/El Salvador. Examples of documents not kept nor provided for our review were:

a) bid quotations from different suppliers to justify purchase terms and awarding procedures;

b) a listing of authorized signatures to permit verification that food and other product deliveries were actually received by the communities;

c) proper records as evidence that vehicle rentals charged to the project were necessary and reasonable;

d) USAID/El Salvador's authorization to purchase air conditioning units;

e) authorization for the payment of per diem allowances to CESAD officials and employees.

Criteria:

According to the agreement, CESAD was responsible for maintaining the above mentioned documentation available for review and audit.

Effect:

As CESAD failed to comply with agreement terms regarding availability of certain documentation for audit purposes, undocumented costs charged to the program could be considered questionable.

Recommendation:

USAID/ El Salvador should require CESAD to provide adequate and reliable (bona-fide) documentation to support all costs charged to the project.

2. Local purchases were made without USAID/El Salvador approval and without obtaining competitive bid quotations from several suppliers.

Condition:

CESAD made many local purchase transactions far exceeding ₡20,000 each and permanently contracted two local transportation companies and a vehicle rental company without USAID/El Salvador approval. Also, in acquiring these goods and services CESAD failed to obtain competitive bids from several suppliers in order to secure the most advantageous conditions for CESAD.

Criteria:

According to the agreement, prior approval from USAID/El Salvador is required for any purchase of goods and services in excess of ₡20,000. Bid quotations from several suppliers should be obtained on a competitive basis.

Cause:

CESAD did not comply with the above mentioned procedures and delegated procurement decisions to the General Manager, the Finance Manager and the accountant for the project.

Effect:

All local purchases of goods and services which did not comply with the required procedures could be considered questionable.

Recommendation:

USAID/El Salvador should require CESAD to strictly follow the procurement procedures required by the agreement, which require prior approval from USAID/El Salvador for any purchase of goods and services in excess of ₡20,000 and competitive bid quotations from several suppliers.

3. Several transactions were made which represented conflicts of interest.

Condition:

Local purchases were made from CESAD employees and former employees and relatives of CESAD officials and employees were contracted for employment, transportation services and vehicle rentals.

Criteria:

The General Requirements for Non-Governmental, Non-U.S. Grantees (Section 17 - Acquisition of goods and services) prohibits goods and services from being acquired from employees or members of their families.

Cause:

CESAD did not implement a conflict of interest policy as required by regulations.

Effect:

Local purchases, transportation services and vehicle rentals and other goods and services acquired from employees and relatives of employees did not comply with the above mentioned requirements and could be considered questionable.

Recommendation:

USAID/El Salvador should require CESAD to implement a conflict of interest policy and refrain from obtaining goods and services from officials, employees, and relatives of employees, who are considered unauthorized suppliers.

4. CESAD's contracts with suppliers lacked a clause permitting access to suppliers' accounting records.

Condition:

CESAD did not require inclusion of a contract clause permitting access to books, documents and contractor records, for audit purposes.

Criteria:

Section b) 5, of Paragraph 17 of the General Requirements for Non-Governmental, Non-U.S. Grantees, requires contracts to have a provision permitting access to program related documentation.

Cause:

CESAD was not aware of the applicability of this regulation to contracts in excess of US$10,000.

Effect:

Failure to comply with the above mentioned condition could prevent audits of contractor records to review costs charged to CESAD.

Recommendation:

USAID/El Salvador should require CESAD's management to comply with the requirement to have a provision in all contracts permitting access to supplier's records.

5. Taxes withheld (income taxes, social security and social housing fund) were not paid as required by law.

Condition:

During March, April and May 1988, CESAD failed to pay the employer's contribution and the taxes withheld from employees salaries.

Criteria:

CESAD should invariably comply with all applicable laws and regulations of El Salvador.

Cause:

There was a lack of funds during the period mentioned.

Effect:

Non-compliance with legal requirements could lead to fines and other surcharges imposed on CESAD jeopardizing its normal activities.

Recommendation:

CESAD should pay its portion of social security and social housing fund contributions to the Government, as well as those same taxes and income taxes withheld from employees' salaries.

NUTRITIONAL PROGRAM MANAGED BY THE

SALVADORAN EVANGELICAL COMMITTEE FOR HELP AND DEVELOPMENT

USAID/EL SALVADOR PROJECT NO. 519-0281

LIST OF REPORT RECOMENDATIONS

INTERNAL ACCOUNTING CONTROL AND PROCUREMENT SYSTEMS

Recommendation No. 1:

USAID/El Salvador should require CESAD to implement adequate internal accounting control and management information systems to permit preparation of reliable, complete and accurate financial information.

Recommendation No. 2:

USAID/El Salvador should require CESAD to improve its controls over the flow of the documents to adequately support costs incurred.

Recommendation No. 3:

USAID/El Salvador should require CESAD to reorganize its procurement department assigning incompatible functions to different individuals for reasonable assurance that acquisition of goods and services is properly approved, executed, recorded in accounting records, received and paid for.

Recommendation No. 4:

USAID/El Salvador should require CESAD to improve its procurement system so that purchases of goods and services are made on an open and competitive basis, without indications of purchases from individuals or entities with family or similar relationships with officers and employees. Also, there should be documentation as evidence that goods or services are actually received.

COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS -

Recommendation No. 1:

USAID/El Salvador should require CESAD to provide adequate and reliable (bona-fide) documentation to support all costs charged to the project.

Recommendation No. 2:

USAID/El Salvador should require CESAD to strictly follow the procurement procedures required by the agreement, which require prior approval from USAID/El Salvador for any purchase of goods and services in excess of ¢20,000 and competitive bid quotations from several suppliers.

Recommendation No. 3:

USAID/El Salvador should require CESAD to implement a conflict of interest policy and refrain from obtaining goods and services from officials, employees, and relatives of employees, who are considered unauthorized suppliers.

Recommendation No. 4:

USAID/El Salvador should require CESAD's management to comply with the requirement to have a provision in all contracts permitting access to suppliers' records.

Recommendation No. 5:

CESAD should pay its portion of social security and social housing fund contributions to the Government, as well as those same taxes and income taxes withheld from employees' salaries.

30 de junio de 1988

López Salgado y Compañía
Avenida Bernal No 222
Colonia Miramonte
San Salvador

Estimados Señores:

A continuación confirmamos, a lo mejor de nuestro conocimiento y entender, las siguientes representaciones hechas a ustedes durante su examen al estado de rendición de cuentas del Programa de Nutrición desarrollado con los fondos otorgados por el USAID/EL SALVADOR bajo el convenio No. 519-0281-G-00-5108-00 y ejecutado por el Comité Evangélico Salvadoreño de Ayuda y Desarrollo (CESAD) durante el período del 1 de enero de 1987 al 30 de junio de 1988. Entendemos que su examen se desarrolló a requerimientos del Inspector General Regional de La Agencia para el Desarrollo Internacional del Gobierno de Los Estados Unidos de Norteamérica para los propósitos de expresar su opinión sobre si:

- Los costos reportados e incurridos dentro del programa corresponden a los costos que de acuerdo a lo establecido en el convenio, sus enmiendas y cartas de implementación, fueron reales bajo conceptos de permisibles, atribuibles y razonables.

- Los controles internos contables y administrativos implementados por CESAD fueron los apropiados para los propósitos de documentar adecuadamente las exigencias del convenio.

- Los procedimientos y prácticas de compras y de contratación de servicios para el programa fueron razonables, abiertas y competitivas, como lo exigen las estipulaciones generales del convenio aplicables a donatarios no gubernamentales fuera de Los Estados Unidos de Norteamérica.

- CESAD cumplió con todos los términos aplicables del convenio, y con las regulaciones y leyes aplicables que afectan los costos incurridos dentro del programa.

1. Reconocemos la reponsabilidad de la gerencia por la razonable presentación del Estado de Rendición de Cuentas, en cuanto a los montos presupuestados y montos reembolsados por o solicitados a USAID/ES, de acuerdo con los términos del contrato, leyes y demas regulaciones aplicables.

2. Todos los registros contables y financieros y otros datos relacionados con la administración del proyecto, en nuestro poder, han sido puestos a su disposición, a excepción de:

a) Listado de firmas de representantes en los cómites locales autorizados para recibir y administrar la distribución de los productos enviados a las comunidades.

b) Contratos suscritos para el arrendamiento de servicios de transporte de productos a comunidades, o para el transporte de personal que tuvieran las condiciones que permitan a CESAD, a La Oficina del Inspector General Regional de USAID/ES o a cualquier representante autorizado, revisar sus registros contables y documentación relacionada con las transacciones efectuadas con CESAD.

c) Procedimientos de control para justificar la utilización de los vehículos para el transporte de personal.

d) Registros de Kardex contable que aseguraran el control apropiado sobre cantidades y valores de inventarios.

e) Análisis de precio y costo y cotizaciones relacionadas con cada transacción de compra de bienes y servicios, para decidir si la autorización del Comité de Compras correspondía con la mejor alternativa.

f) Listados de remisión a AID o alguna otra institución a quienes ellos hayan autorizado a recibir inventarios de alimentos, insumos, mobiliario y equipo descargados de los registros en la liquidación final de las cuentas del proyecto.

3. No tenemos conocimiento de:

a) Alguna cuenta, transacción o acuerdo material, que no les haya sido descrito o registrado apropiadamente en los registros contables y financieros, para los efectos de incorporarlos dentro del estado de rendición de cuentas del proyecto.

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b) Ninguna irregularidad que involucre a los directores, gerentes o empleados que tuvieron una actuación significativa en el sistema de control interno contable, o de alguna irregularidad que involucre a otros empleados, que pudo haber afectado materialmente el estado de rendición de cuentas.

c) Alguna violación o posible violación de leyes o regulaciones cuyos efectos deban ser considerados para desglozarlos en el estado de rendición de cuentas o como base para registrar una pérdida contingencial.

d) Haber recibido comunicaciones de AID/ES u otros agentes reguladores con relación al no cumplimiento con o deficiencias en los reportes y prácticas financieras que puedan tener un efecto material sobre el estado de rendición de cuentas.

Con excepción de:

a) Contrataciones de personal, de servicios de transporte y de arrendamiento de vehículos, por un monto de ₡2,474.805.00 que se apartan de las políticas generales y las de conflicto de intereses establecidos por AID.

Consideramos que estos pagos, hasta donde tenemos conocimiento, no afectaron la razonabilidad de los costos cargados al proyecto.

b) En el período del 1 de enero de 1987 al 30 de junio de 1988 se efectuaron numerosos desembolsos que suman ₡6,620,734 para cancelar compras de granos básicos, insumos y de servicios de transporte cuyo monto de la contración total era superior a la cifra que el convenio requiere obtener aprobación previa y escrita de AID.

4. Todos los artículos adquiridos con los fondos del convenio, hasta donde tenemos conocimiento, fueron incluídos en el estado de rendición de cuentas, del período del 1 de enero de 1987 al 30 de junio de 1988 y no se utilizaron fondos para: compra de equipo militar, equipo de vigilancia o de bienes y servicios para ayudar a la policía o cualquier otro cuerpo de seguridad, equipo y servicio para abortos, bienes de lujo y equipos de juego de azar o equipos para modificar el clima.

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5. Todas las obligaciones del programa de nutrición entendemos que han sido incluídos en los registros contables al 30 de junio de 1988.

6. El estado de rendición de cuentas y notas, incluyen todos los desgloses necesarios para una razonable presentación de los montos presupuestados en el convenio y reembolsados al comité de acuerdo con los términos del convenio y las leyes y regulaciones aplicables.

7. A la fecha de esta carta ningun asunto o evento ha llamado a nuestra atención que pueda tener un efecto material sobre el estado de rendición de cuentas y notas relacionadas por el período del 1 de enero de 1987 al 30 de junio de 1988.

Lic. Manuel de J. Quiñonez
Director Ejecutivo

Dr. Carlos Antonio Bautista Flamenco
Gerente General

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COMITE PANAMERICANO SALVADOREÑO DE AYUDA Y DESARROLLO

PROYECTO DE NUTRICION

Agosto 18 de 1988.-

Licenciado
Wilfredo López Salgado
Gerente General
Price Waterhouse
Presente.-

Estimado Licenciado López:

En relación a su carta de fecha 15 de julio del corriente año, después de analizar dicho documento con el Gerente General, Director de Programas y miembros de la Junta Directiva; consideramos a bien firmar dicha carta con ciertas modificaciones en las áreas donde dice "No tenemos conocimiento de", de los numerales 2 y 3; por lo que me permito adjuntar dichos cambios para que estén acorde a nuestras disposiciones al respecto.

Asimismo ruego a usted, tomar en cuenta el tiempo que ha transcurrido hasta la fecha después de cerrado el Convenio, en relación a las Cuentas por Pagar, ya que los Proveedores constantemente nos visitan y no tenemos que respuesta proporcionarles y nos han manifestado que cargará intereses sobre los saldos por pagar.

En espera de una pronta respuesta a lo antes manifestado, me suscribo de usted.

Atentamente,

LIC. MANUEL DE JESUS QUIÑONEZ
Director Ejecutivo.

C.C. Sr. Franklin Latham
Contralor - AID

MDJQ/cdp.-

TELEFONOS 22 2787 71 5087 APDO POSTAL

2.

a) En relación a este literal, me permito informar lo siguiente:
El Convenio en el Adjunto No. 1, Literal H y Numeral 1, solamente exigió nombre (s) y cargo (s) de las personas descritas en el Adjunto No. 2, II D, con el facsímil de sus firmas responsables de Comités en San Salvador y otras partes en El Salvador, lo cual lo hicimos, pero solamente de las personas que firmarían cheques contra la cuenta bancaria No. 0505 3575.

Nunca se me pidió listado sobre nombres de Comités Locales autorizando la distribución de productos enviados a las comunidades. Sin embargo, desde antes como en el momento de la firma del Convenio, mantuvimos y mantenemos a la fecha, nombres y rol de cada uno de los integrantes como su función dentro de los Comités Regionales, Departamentales y Locales. Además la oficina del señor Raymond Lynch, recibió listado de miembros de la Junta Directiva de las comunidades, personas que también firmaron los envíos por recibido de productos (granos básicos e insumos).

b) En cuanto a este literal realmente nunca pusimos a su disposición ofertas de contratos para servicios de transporte y/o vehículos para trasladar a personal a determinada comunidad. La verdad de todo fue la urgencia de implementar el Programa de Nutrición, debido a la situación socio-política y económica por la que atravesaba y atraviesa el país.

Debido a que se dejó la administración a criterio y responsabilidad de CESAD, se pensó en ese momento en: a) La urgencia, el buen servicio, responsabilidad y eficiencia como capacidad en ofrecer un servicio sin ninguna mala intención de favorecer a determinada familia o Institución. Además se consultó verbalmente con otros transportistas sobre las posibilidades de proporcionar tal servicio en todo el país. Lamentablemente por las circunstancias antes mencionadas, solamente ofrecían sus servicios en lugares no peligrosos (o zona conflictiva), es decir proporcionaban sus servicios en El Salvador, Occidente y no en las zonas paracentral y oriental.

En sí, considero que con el fin de servir a la comunidad o cumplir - urgentemente con el Convenio 519-0281, se procedió de tal manera. Lo importante y válido es que se dió el servicio, no se perdió ningún producto desde su entrada al Puerto de Acajutla y nuestras bodegas y de estas a las comunidades, prueba de ello es que por parte de la AID, Monitores del Programa PL-480, constantemente efectuaron arqueos en diferentes lugares, hasta la fecha no existe ningún recla - mo en tal sentido. Lo mismo por parte de las Compañías de Seguros - ASESUISA, LA CENTROAMERICANA y SISA.

En síntesis, las programaciones del Depto. Técnico, Kardex de bodega, Contabilidad y envíos a hacia la comunidad, considero que son prue - bas feacientes de haber hecho buen uso de las donaciones en especie.

c) La Gerencia General llevaba un cuadro en base a la programación efectuada por el Depto. Técnico, el cual servía como medio de control para trasladar a técnicos, supervisores o promotores a efectuar las diferentes labores que demandaba el Programa.

d) Este literal considero que no debe aparecer, ya que se proporcionaron los Kardex a los señores de Price Waterhouse, sin embargo no fueron trabajados como debía ser, es decir haber llenado las columnas de valores y unidades, lo que sucedió en las bodegas y el departamento de Contabilidad Proyecto de Nutrición, es que las bodegas trabajaron con unidades y contabilidad con valores, lo cual dificultó el trabajo de cotejamiento.

e) En cuanto a este punto, me permito acotar lo siguiente: en la mayoría de casos la comisión o Comité de Aprobación, integrada por la Dirección Ejecutiva, Dirección de Programas, Gerencia General, Contador y Jefe de Finanzas, se tuvo las tres cotizaciones que el Convenio como la Carta de Implementación No.6 exigía.

Siempre se le presentó al Comité de Compras, las ofertas de venta (cotizaciones) a fin de cotejarlas y escoger entre sí las mejores, en - cuanto a: calidad, existencia, precios y pronta entrega.

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Todo esto aparece en una acta compuesta por una hoja de papel.

f) Este literal aparece amparado en la cartas con fecha marzo 3 y mayo 27 de 1988, lamentablemente no entregamos copia de ésta a la Price Waterhouse, por considerar que la AID les remitía copia de cada carta enviada a CESAD, pero sí se les informo verbalmente (Ver cartas adjuntas)

Lo mismo sobre las notas de envío, donde aparece la firma de recibido por parte del representante de la AID, World Relief y CONADES, como los Hospitales que recibieron las cocinas (Ver notas adjuntas).

3.

a) El monto de ₡ 2.474,805.00, en concepto de contratación de personal, transporte y arrendamiento de vehículos, consideramos que algunos aspectos se apartaron de las políticas generales, pero no hubo conflicto de intereses, lo mismo en cuanto a la contratación del personal, todo fue autorizado a través de Cartas de Implementación, como de cartas corrientes.

b) Considero también, que este literal puede modificarse en el sentido de que todos los granos básicos si fueron autorizados según cartas (cuyas copias se adjuntan) de fechas: abril 13 de 1987 giradas por el señor Donald F. Enos, Director de Recursos Humanos y Asistencia Humanitaria; mayo 7 de 1987 por el señor Raymond G. Lynch, Gerente del Proyecto.

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C. I. D. A. D.

APARTADO [illegible] SAN SALVADOR, EL SALVADOR, C.A.

APPENDIX II

Noviembre 22 de 1988.-

Señor
Coinage N. Gothard
Inspector General Regional
de Auditoría
Agencia para el Desarrollo
Internacional de los Estados
Unidos de Norte América
Tegucigalpa, Honduras, C.A.

Estimado señor Gothard:

En relación a nota anexa al informe sobre los resultados de la Auditoría financiera, respecto al Programa de Nutrición, durante el período del 1º de enero de 1985 al 31 de junio de 1988, le puedo decir lo siguiente:

He hecho un breve estudio a dicho informe, llegando a las conclusiones siguientes:

1.- Quien firmó dicho Convenio, ya no existe y eso significa que quien fue responsable ha muerto y era el único que podía proporcionar la información apropiada y aclarativa que están requiriendo.

2.- Eso significa que, su servidor, quien recibió el cargo de Presidente en fecha 5 de noviembre según punto de acta y el Lic. Quiñónez falle[illegible] [illegible] del presente año, no poseo los criterios y razones [illegible] el mencionado informe que puedan ser utilizados para establecer las justificaciones de lo que califican como cuestionable.

En espera de su consideración, me suscribo atentamente.

SR. JOSE LEON LEMUS
Presidente

JLL/

COMITE EVANGELICO SALVADOREÑO DE AYUDA Y DESARROLLO
C. E. S. A. D.
APARTADO POSTAL 1965 - SAN SALVADOR, EL SALVADOR, C. A.

Noviembre 22 de 1988.-

Señor
Coinage N. Gothard
Inspector General Regional
de Auditoría
Agencia para el Desarrollo
Internacional de los Estados
Unidos de Norte América
Tegucigalpa, Honduras, C.A.

Estimado señor Gothard:

En vista de la situación real que escuchamos de su parte y demás Auditores de la AID, en relación con el reporte oficial de Auditoría en cuanto al manejo de fondos en el Programa de Nutrición que fue canalizado a través de CESAD, pero adminsitrado por los señores Lic. Manuel de Jesús Quiñónez, Dr. Carlos Bautista, señor Mario Hugo Benitez y el Ing. Jaime Chacón, no podemos más que sentirnos consternados, porque según vuestro informe se comprueba que hubo mal manejo de fondos, cuantiosos en cuentas por cobrar que a vuestro criterio no se encontraron documentos justificadores de dichos gastos.

La pena es grande, porque CESAD como Institución de servicio, ha sido ofendida, violando así su imagen y mística establecida en sus Estatutos. Además no comprendemos como es posible que tenenos en nuestro poder facturas con valor de más de ₡ 500,000.00, que según manifestó ya están incluidas en la partida de liquidación de gastos presentados, cuando entendemos que deberían estar en liquidaciones pendientes de aceptación.

Estaríamos más satisfechos, si nos permitieran hacerles llegar comentarios escritos por las principales direciones del Programa de Nutrición, como es el señor Mario Hugo Benitez, el Dr. Carlos Bautista y el Ing. Jaime Chacón que son los que tenemos a nuestro alcance, posiblemente se pueden utilizar como puntos de referencia para establecer ideas más concretas sobre lo de las liquidaciones pendientes de aceptación, que es donde nosotros no tenemos elementos razonables que les puedan satisfacer la justificación de dichos gastos.

Pasa....

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2...

Creemos que CESAD como Institución tiene responsabilidad, pero al mismo tiempo las personas que administraron dichos fondos deber ser llamadas a discutir su responsabilidad en dichos manejos, esto es para que se haga constar en sus archivos la opinión de los involucrados en el Proyecto. Creemos también que se debe investigar por la responsabilidad del caso, a las personas que ejecutaron lo del transporte, pues nos preocupa el que se hayan pagado 6 meses anticipadamente de algo que según datos de Auditoría no se realizó, en este caso podemos citar al señor Carlos Chacón hijo del Ing. Jaime Chacón, quien manejó buena parte del transporte y hasta se les puede pedir justificación de su operatividad con documentos fehacientes que satisfagan el común interés por aclarar qué paso con esos dineros y quienes se beneficiaron sin justificación alguna. Hemos hablado con el Ing. Jaime Chacón y Dr. Carlos Bautista, y están dispuestos en presentar argumentos y comentarios que nos pueden ser útiles para establecer criterios que nos conduzcan a una salida más honorable para los que estamos en conflicto.

Nos gustaría se nos concediera una forma humana, viable y honorable cómo CESAD pueda enmendar esa página negra.
Quisiéramos que AID dispensara a CESAD aquellas cuentas en las que se comprobara alguna justificación que legitime el haber efecutado su operación, naturalmente que lo hacemos en vista no solo por ir curando este caso, sino porque honestamente CESAD no tiene fondos ni medios como liquidar semejante gravámen. Les reiteramos que nuestra mentalidad es diferente aunque la situación es crucialmente adversa e imposible por superar humanamente hablando, pero si ustedes no han perdido la visión humanitaria que les ha caracterizado en estos aciagos momentos de nuestro país, creo que nos darán su generosa contribución para que CESAD no sufra más de lo que ha soportado, creo que si estuviéramos en condiciones de solicitarles alguna forma de trabajo en que el Comité pueda ir solventando dichos cargos, sería muy saludable para nuestro espíritu de lucha por sobrevivir de la crisis. Lo que deseamos es que CESAD no muera y siga intentando prestar la utilidad para lo que fue creado. Honestamente hablando, la presente Junta Directiva no ha tenido absolutamente nada que ver en el manejo de los fondos del Proyecto de Nutrición y personalmente le testifico como Presidente de la misma, que es verdad que hemos fungido como empleados, pero en áreas

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donde no hemos tenido nada que ver con la parte financiera, de manera que, el manejo de los fondos en discusión, fue trabajo tanto del Director Ejecutivo como del Gerente. Sin embargo, estamos dispuestos a escuchar su opinión al respecto.

En espera de su más alta consideración, me suscribo de usted.

Atentamente,

JOSE LEON LEMUS
Presidente.-

JLL*

UNITED STATES GOVERNMENT

memorandum

DATE: December 16, 1988

REPLY TO ATTN OF: for William B Roschek A/D/DIR
Richard K. Archi, D/DIR, USAID/EL Salvador

SUBJECT: USAID/El Salvador Comments on the Draft Non-Federal Audit of CESAD

TO: Mr. Coinage Gothard, RIG/A/T

APPENDIX III

With the exception of minor editorial comments on the draft, which were provided to you separately on a marked up version of the draft report, the USAID has the following substantive comments:

1. Price Waterhouse has made nine recommendations, eight of which could be implemented only if the USAID were to reactivate its Agreement with CESAD, which for obvious reasons we cannot imagine that Price Waterhouse or the RIG/A/T would recommend. The one recommendation that the USAID should implement is "USAID/El Salvador should require CESAD to provide adequate and reliable (bona-fide) documentation to support all costs charged to the project." The other eight recommendations should be directed to CESAD and the USAID should not be held responsible for compliance as no USG interest is involved, given that the Mission severed its relationship with CESAD in April, 1988.

2. The USAID believes that certain "Questionable Costs" presented by Price Waterhouse should be adjusted:

   a. Equipment. CESAD returned to the USAID equipment with (late 1987) an acquisition cost on CESAD records of at least $135,061.85 (a listing has been provided to the RIG/A/T). The total would have been larger if CESAD had made available to the USAID the acquisition cost of other returned items. Also, the US$ value of those items purchased prior to 1986, when the previous exchange rate was 2.5 to 1, would have been doubled if the purchase dates had been available.

b. PL 480 Title II Commodities. CESAD returned to the USAID 531.8 tons of commodities with an estimated PL 480 Program Cost of $224,492 (a listing has been provided to the RIG/A/T).

c. Local Food Purchases. Both food and agricultural inputs were purchased under this line item. Since the Agreement specifically allowed for the purchase of these items and the requirement for approval of purchases over $ 20,000 was a control over what was purchased not the purchase process, all questionable costs for these items where the only problem is prior approval should be removed from the questionable cost category.

The Cooperative Agreement states the following with regard to the purchase of food and agricultural inputs:

"I. PROGRAM DESCRIPTION

B. Objectives

5. Distribution of basic grains and agricultural supplies to improve agricultural production and nutrition. The grantee will be responsible for the purchase, storage, and distribution of corn and bean seed and agriculture supplies to displaced families who are returning to their place of origin or permanently resettling in new sites."

"D. Activity Description

6. Basic Grains Program:

b. Resources for Planting:

The corn and been seeds will be purchased by CESAD and available for distribution to participating institutions prior to the start of the planting season; CESAD will also place orders early for agriculture supplies to ensure availability for the planting season.

CESAD will purchase the seeds and agriculture supplies locally, with funds from the 'Local Purchase of Food' line item of this Cooperative Agreement."

RO:of

APPENDIX IV

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